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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ENERGY DIVISION

Item 24 ID#4224

RESOLUTION E-3911

January 27, 2005

R E S O L U T I O N

Resolution E-3911. This Resolution approves Pacific Gas and Electric's (PG&E) request to make revisions to its Advanced Metering and Demand Response Account (AMDRA) and to transfer the 2004 AMDRA balance of \$4.79 million for rate recovery to its Distribution Revenue Adjustment Mechanism (DRAM).

By Advice Letter (AL) 2569-E filed on October 15, 2004.

SUMMARY

This resolution approves PG&E's request to transfer the 2004 Advanced Metering and Demand Response Account (AMDRA) balance of \$4.79 million for rate recovery to its Distribution Revenue Adjustment Mechanism (DRAM). The \$4.79 million are PG&E's 2004 program expenditures for Commission authorized demand response programs in Rulemaking (R.) 02-06-001.

This resolution grants PG&E's request to amend its AMDRA preliminary statement to:

1. provide more specificity on the process for AMDRA cost recovery;
2. allow PG&E to record capital-related costs associated with the demand response programs, consistent with the accounting treatment authorized in Decision (D.) 03-03-036;
3. record and recover costs associated with the development and implementation of 2005 demand response programs;

This resolution also grants PG&E's request to reallocate, in 2004, unspent funds approved for 2004 for the development of new programs proposed for 2005.

PG&E's Advice Letter 2569-E was not protested.

BACKGROUND

In June 2002, the Commission instituted Rulemaking (R.) 02-06-001¹ to provide the forum to formulate comprehensive policies to develop demand flexibility as a resource to enhance electric system reliability, reduce power purchase and individual costs, and protect the environment. This resolution addresses the 2004 demand response program expenditures (January through September) for programs authorized in phase 1 and 2 of this Rulemaking.

D. 03-03-036 authorized the Advanced Metering and Demand Response Accounts (AMDRA) for the purpose of recording and recovering costs associated with the development and implementation of demand response programs in R. 02-06-001²

In phase 1 of this Rulemaking, the Commission authorized (D. 03-03-036) the implementation of the Statewide Pricing Pilot (SPP) and Automated Demand Response System (ADRS)³ pilot for residential and small commercial customers with a 2003 annual cost cap of \$12 million. On January 8, 2004, the Commission approved (D.04-01-012) an additional \$7.2 million for the continuation of the SPP and ADRS in 2004 and for the implementation of the Information Display Pilot.

D.03-03-036 established the mechanism for the IOUs to recover the costs of developing and implementing demand response programs and tariffs authorized in the R. 02-06-001. D.03-03-036 authorized the creation of the AMDRA for the purpose of recording and recovering the incremental, one-time set up and on-going Operating and Maintenance (O&M) and Administrative and General (A&G) expenses incurred to develop and implement the demand response programs adopted in R. 02-06-001.

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1. Order Instituting Rulemaking on policies and practices for advanced metering, demand response, and dynamic pricing.
 2. D. 03-03-036, ordering paragraph 8.
 3. The SPP is a pricing research project designed to test and measure how a representative sample of residential and small commercial customers respond to time differentiated rates (time-of-use and critical peak pricing tariffs) with information and/or technology treatments. ADRS pilot is design to test how customers respond to time differentiated rates with a full scale energy management home system.

This order also specified that revenue shortfalls and incentive payments associated with these programs would be recovered from all bundled service customers through each respondent IOU's procurement-related cost account. Further, it authorized capital additions for these programs as additions to the respective IOU's plant which could be recovered through rates⁴.

D.03-06-032 authorized demand response program offerings for large customers with a two-year (for 2003 and 2004) spending cap of \$33 million

On June 5, 2003 the Commission issued D.03-06-032 which authorized demand response offerings for large customers: a statewide Critical Peak Pricing (CPP) tariff, an Hourly Pricing Option (HPO), Demand Bidding Program (DBP) and the Demand Reserves Program (DRP). The Commission authorized \$33 million in funding for these programs for 2003 and 2004 and granted the IOUs the authority to continue to use the previously adopted cost recovery mechanism in D.03-03-036 to track and recover costs associated with these programs.⁵

The November 24, 2003 Assigned Commissioner Ruling and Scoping Memo (ACR) authorized the IOUs to continue to record and track the administrative costs associated with phase 2 of the Rulemaking

The November 24, 2003 ACR outlined the phase 2 issues of R.02-06-001. Specifically, phase 2 would focus on developing the business case framework and analysis for the deployment of an Advanced Metering Infrastructure (AMI). The ACR also authorized the IOUs to continue to record and track in their AMDRAs the administrative costs associated with phase 2 of the Rulemaking,⁶ which included the costs associated with the preparation of the AMI business case analysis. PG&E, in this Advice Letter, requests to authority to recover 2004 costs associated with their AMI business case development.

4. D.03-03-036, ordering paragraphs 9, 10, and 11.

5. D.03-06-032, ordering paragraph 22.

6. November 24, 2003 ACR, pg. 5, footnote 12.

PG&E requests authority to transfer the 2004 AMDRA balance of \$4.79 million to its DRAM for rate recovery

PG&E proposes to recover through distribution rates the AMDRA balance by transferring it to their DRAM. The \$4.79 million are 2004 program expenditures for Commission authorized demand response programs in R. 02-06-001. A breakdown of these program costs is provided in the discussion section of this resolution.

PG&E also requests authority to amend its AMDRA preliminary statement to provide more specificity on the process for costs recovery. PG&E proposes an annual advice letter filing to recover its AMDRA balance, and upon approval PG&E would transfer the AMDRA balance to its DRAM, or appropriate balancing account for rate recovery.

PG&E requests authority to add a provision to its AMDRA preliminary statement to record capital-related costs associated with the demand response programs authorized in this Rulemaking

This provision would allow PG&E to record capital costs associated with the implementation of approved demand response programs. This approach is consistent with the current accounting treatment authorized in D.03-03-036 for phase 1 programs and the approach used by SCE and SDG&E.

PG&E requests authority to add a provision to its AMDRA preliminary statement to recover costs associated with the development and implementation of their 2005 demand response programs

This provision would allow PG&E to record and recover the program development and implementation costs for 2005 demand response programs. PG&E also requests authority to reallocate, in 2004, unspent funds approved for 2004 for the development of new programs proposed for 2005.

NOTICE

Notice of AL 2569-E was made by publication in the Commission's Daily Calendar. SCE states that a copy of their AL was mailed and distributed in accordance with Section III-G of General Order 96-A.

PROTESTS

PG&E's Advice Letter 2569-E was not protested.

DISCUSSION

Energy Division recommends granting PG&E's request to transfer the AMDRA balance of \$4.79 million to their DRAM for rate recovery

Energy Division has reviewed program costs recorded in PG&E's AMDRA and confirmed that these expenditures are for demand response programs authorized by the Commission as described in the background section of this Resolution.

Expenditures recorded in the AMDRA include: \$1.95 million for the development, implementation, and continuation of the demand response programs (Demand Reserves Partnership Program, Demand Bidding, E-Save, Power Down, and Critical Peak Pricing) for the large customers (loads greater than 200 kW) in 2004; \$2.13 million for on-going costs for the Statewide Pricing Pilot (SPP) and Automated Demand Response System (ADRS) Pilot in 2004; \$636, 482 for expenses incurred for the AMI business case development; and \$70,000 for interest accrued on the account.

Energy Division recommends granting PG&E's request to amend its AMDRA preliminary statement to provide more specificity on the process for AMDRA cost recovery

D.03-03-036 authorized the AMDRA for the purpose of recording and recovering costs associated with the development and implementation of demand response programs in R. 02-06-001. However, it did not provide enough specificity on the process for recovering these costs. Under PG&E's proposal AMDRA balances would be reviewed on annual basis via an advice letter filing, and upon approval PG&E would transfer the balance to its DRAM, or appropriate balancing account for rate recovery. This cost recovery process is consistent with the provisions authorized for SCE and SDG&E and with the ratemaking treatment proposed for adoption in the December 28, 2004 draft decision (agenda ID # 4197) that approves the 2005 demand response goals, programs, and budgets in this Rulemaking. Energy Division therefore recommends granting PG&E's AMDRA modification request.

Energy Division recommends granting PG&E request to add a provision to its AMDRA preliminary statement to record and recover costs associated with the development and implementation of their 2005 demand programs

The November 24, 2003 ACR granted the IOUs the authority to record in their AMDRAs for future recover the costs associated with phase 2 issues and programs. The proposed AMDRA modification is consistent with the ACR and therefore is granted.

We also grant PG&E's request to reallocate, in 2004, unspent funds approved for 2004 for the development of new programs proposed for 2005. This approach is consistent with the budget guidelines proposed in the December 28, 2004 draft decision (agenda ID # 4197) in this Rulemaking. However, if the budget guidelines change in the final order, those guidelines superseded Energy Division's recommendation, herein.

Energy Division recommends granting PG&E request to add a provision to its AMDRA preliminary statement to record capital-related costs associated with the demand response programs

This accounting treatment for capital-related costs for demand response programs is in accordance with the treatment authorized in D. 03-03-036⁷ for phase 1, as well as the current approach used by SCE and SDG&E, therefore it is approved.

COMMENTS

Public Utilities Code section 311(g)(1) provides that this resolution must be served on all parties and subject to at least 30 days public review and comment prior to a vote of the Commission. Section 311(g) (3) provides that this 30-day period may be reduced or waived pursuant to Commission adopted rule.

The 30-day comment period may be reduced where the Commission has determined that the public necessity, as defined in Rule 77.7(f)(9), requires reduction of the 30-day comment period. In this case, the changes to PG&E's AMDRA need to be implemented immediately in order for PG&E to record and recover costs associated with the development and implementation of Commission authorized 2005 demand response programs, and to recover the 2004 AMDRA balance.

7. Odering Paragraph 9

FINDINGS

1. On October 15, 2004, PG&E filed Advice Letter 2569-E requesting authority to make revisions to its AMDRA and to transfer the AMDRA balance of \$4.79 million for rate recovery to its DRAM.
2. Energy Division has reviewed and confirmed that the program costs recorded in PG&E's AMDRA are for Commission authorized demand response programs in R. 02-06-001.
3. D. 03-03-036 authorized the AMDRAs for the purpose of recording and recovering costs associated with the development and implementation of demand response programs in R. 02-06-001.
4. D.03-06-032 authorized demand response program offerings for large customers with a two-year (for 2003 and 2004) spending cap of \$33 million, and granted the IOUs the authority to continue to use the cost recovery mechanism (AMDRAs) adopted in D.03-03-036.
5. The November 24, 2003 ACR authorized the IOUs to continue to record and track the administrative costs associated with phase 2 of the Rulemaking, which included costs associated with the preparation of the AMI business case analysis.
6. PG&E requests authority to add a provision to its AMDRA preliminary statement to record capital-related costs associated with the demand response programs in this Rulemaking.
7. PG&E requests authority to amend its AMDRA preliminary statement to provide more specificity on the process for AMDRA review and cost recovery.
8. PG&E proposes an annual advice letter filing to recover its AMDRA balance, and upon approval, PG&E would transfer the AMDRA balance to its DRAM, or appropriate balancing account for rate recovery.
9. PG&E requests authority to add a provision to its AMDRA preliminary statement to record and recover costs associated with the development and implementation of their 2005 demand response programs.
10. This resolution grants PG&E's request to transfer the AMDRA balance of \$4.79 million to their DRAM for rate recovery.
11. This resolution grants PG&E's request to amend its AMDRA preliminary statement to provide more specificity on the process for AMDRA review and cost recovery.
12. This resolution grants PG&E's request to add a provision to its AMDRA preliminary statement to record capital-related costs associated with the demand response programs authorized in this R.02-06-001.

13. This resolution also grants PG&E request to reallocate, in 2004, unspent funds approved for 2004 for the development of new programs proposed for 2005.
14. This reallocation of unspent funds is consistent with the budget guidelines proposed in the December 28, 2004 draft decision that approves the 2005 demand response goals, programs, and budget.

THEREFORE IT IS ORDERED THAT:

1. PG&E is authorized to transfer the AMDRA balance of \$4.79 million to their DRAM for rate recovery.
2. PG&E is authorized to implement the changes to its preliminary statements requested in their Advice Letter filing.
3. PG&E is authorized to reallocate, in 2004, unspent funds approved for 2004 for the development of new programs proposed for 2005.
4. This Advice Letter shall become effective immediately.
5. Public necessity requires that the 30-day comment period be waived in order for PG&E to record and recover costs associated with the development and implementation of Commission authorized 2005 demand response programs and recover the 2004 AMDRA balance.
6. We balance the public interest in avoiding the possible harm to public welfare flow from delay in considering the Resolution against the public interest in having the full 30-day period for review and comment, as required by Rule 77.7(f)(9), and conclude that the former outweighs the latter.

This Resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California held on January 27, 2005; the following Commissioners voting favorably thereon:

Steve Larson
Executive Director

January 27, 2005

ID#4224
January 10, 2005

RESOLUTION E-3911
Commission Meeting January 27, 2005

TO: PARTIES TO PACIFIC GAS & ELECTRIC ADVICE LETTER NO 2569-E

Enclosed is draft Resolution Number E-3911 of the Energy Division, which is scheduled for consideration at the January 27, 2005 Commission meeting. The Commission may then vote on this Resolution or it may postpone a vote until later.

When the Commission votes on a draft Resolution, it may adopt all or part of it as written, amend, modify or set it aside and prepare a different Resolution. Only when the Commission acts does the Resolution become binding on the parties.

Pursuant to Rule 77.7 (f)(9) of the Commission's Rules of Practice and Procedure, the 30-day period for public comment is being reduced. Parties may submit comments on the draft Resolution by January 19, 2005.

An original and two copies of the comments, with a certificate of service, should be submitted to:

Jerry Royer
Energy Division
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

A copy of the comments should be submitted to:

Moises Chavez
Energy Division
California Public Utilities Commission
505 Van Ness Avenue

San Francisco, CA 94102

January 27, 2005

Any comments on the draft Resolution must be received by the Energy Division by January 19, 2005. Those submitting comments must serve a copy of their comments on 1) the entire service list attached to the draft Resolution, 2) all Commissioners, and 3) the Director of the Energy Division, on the same date that the comments are submitted to the Energy Division.

Comments shall be limited to five pages in length plus a subject index listing the recommended changes to the draft Resolution, a table of authorities and an appendix setting forth the proposed findings and ordering paragraphs.

Comments shall focus on factual, legal or technical errors in the proposed draft Resolution. Comments that merely reargue positions taken in the advice letter or protests will be accorded no weight and are not to be submitted.

Replies to comments on the draft resolution may be filed (i.e., received by the Energy Division) on January 24, 2005, five days after comments are filed, and shall be limited to identifying misrepresentations of law or fact contained in the comments of other parties. Replies shall not exceed five pages in length, and shall be filed and served as set forth above for comments.

Late submitted comments or replies will not be considered.

Judith Iklé

Program Manager

Energy Division

Enclosure: Service List

CERTIFICATE OF SERVICE

CERTIFICATE OF SERVICE

I certify that I have by mail this day served a true copy of Draft Resolution E-3911 on all parties in these filings or their attorneys as shown on the attached list.

Dated January 10, 2005 at San Francisco, California.

Jerry Royer

NOTICE

Parties should notify the Energy Division, Public Utilities
Commission, 505 Van Ness Avenue, Room 4002
San Francisco, CA 94102, of any change of address to
insure that they continue to receive documents. You
must indicate the Resolution number on the service list
on which your name appears.

Service List for Resolution E-3911

Rose de la Torre
Pacific Gas & Electric Co.
Regulatory Relations, Mail Code B10C
77 Beale Street, Room 1088
San Francisco, CA 94105